

The last one!

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points each) For each of the following, explain the argument as to why the government debt hurts the economy in the long run. To what extent is that a valid argument? Explain your logic.

A) Crowding out

B) Paying off the debt will hurt our grandchildren. (Ignore the fact that some people like me purposely chose not to have children because of the overpopulation problem.)

2) (15 points) Explain the *twin deficits*. How does one cause the other?

3) (15 points) Why is it so hard to balance the Federal Government's budget? Explain your logic mentioning the two general methods of balancing the budget and why both of them are hard to do.

4) (10 points each) For each event, determine what happens to M1 and M2. Explain your logic.

A) You move \$500 from your maturing CD to your checking account.

B) You write a check to the bookstore for \$500 for one textbook.

C) You take \$10 cash out of your savings account.

D) You charge a \$400 textbook on your credit card.